

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 1203 – HB 2085

May 22, 2009

SUMMARY OF AMENDMENT (008744): Deletes the language of the original bill. Creates a new economic development program, to be administered by the Department of Economic and Community Development (ECD) and in conjunction with the Department of Revenue (DOR), known as the Tennessee Small Business Investment Company Credit Act (TSBICCA). The TSBICCA authorizes an aggregate maximum of \$120,000,000 in investment tax credits, to be offset against the gross premium tax liabilities of certain insurance companies who qualify as participating investors for the purpose of serving as economic development incentives. Requires authorized tax credits be used against tax liabilities for tax years 2012 through 2019.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue –

\$37,500/FY09-10/Economic and Community Development
\$25,000/FY10-11 and Subsequent Years/Economic and
Community Development

Decrease State Revenue – Net Impact

Exceeds \$5,000,000/FY13-14 through FY16-17/General Fund

Increase State Expenditures – \$190,000/Recurring

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenue –

\$190,000/Economic and Community Development/Recurring

Decrease State Revenue – Net Impact

Exceeds \$5,000,000/FY11-12 through FY18-19/General Fund

Increase State Expenditures –

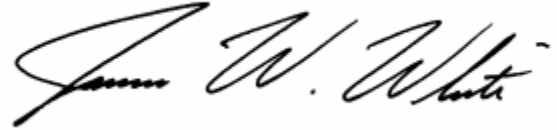
\$190,000/Economic and Community Development/Recurring

Assumptions applied to amendment:

- Pursuant to Section 6(c) of this bill as amended, awarding of tax credits shall be in the sole discretion of the Commissioners of ECD and DOR.
- According to ECD, the Department will require one additional position to administer the program. The associated increase to recurring state expenditures is estimated to be \$70,000 per year (\$43,600 salary, \$21,400 benefits, \$5,000 other).
- According to ECD, the Department will need to contract with an experienced Certified Public Accounting firm for auditing services to ensure program compliance. The associated increase to recurring state expenditures is estimated to be \$120,000 per year.
- The total increase to recurring state expenditures is estimated to be \$190,000 per year (\$70,000 + \$120,000 = \$190,000).
- Participating investors are required to file application with ECD and pay a one-time non-refundable application fee of \$7,500, as well as annual certification fees of \$5,000 each year. In addition, and pursuant to Section 10(a) of this bill as amended, ECD will collect additional fees from Tennessee investment companies for offsetting costs related to the conducting of annual reviews. ECD indicates that revenue derived from these sources is anticipated to cover expenditures incurred by the Department for implementation. Therefore, an increase to recurring state revenue estimated to be approximately \$190,000 per year.
- Determining the extent of gross premium tax credits that will be authorized as a result of this bill is dependent upon multiple unknown factors such as the number of qualifying insurance companies, the extent of capital investment made by each qualifying company, and the extent of gross premium tax liability for each qualifying company.
- Given this extent of unknown factors, determining a precise estimate for such tax credits is difficult. However, a significant decrease of gross premium tax revenue is anticipated for each fiscal year beginning with FY11-12 and ending with FY18-19 (an eight-year period).
- Given the aggregate maximum for gross premium tax credits is \$120,000,000, and that such maximum shall be spread over an eight-year period, it is estimated that gross premium tax revenue will decrease by an unknown amount exceeding \$5,000,000 per year for each specified year.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large, stylized "J" and "W".

James W. White, Executive Director

/rnc